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INDUSTRIAL DEVELOPMENT AND COOPERATION ACTIVITIES: INDUSTRIALIZATION OF THE LEAST DEVELOPED COUNTRIES

Report by the Director-General

Summary

In compliance with resolution GC.5/Res.16, reports on activities carried out by UNIDO in 1994 and 1995 for the benefit of least developed countries, supplementing the information contained in document GC.6/5, chapter VIII.

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Introduction

1. In its resolution GC.5/Res.16, the Conference requested the Director-General, within the framework of the overall revitalization of UNIDO and its prioritization and structural reform as contained in document GC.5/23, to continue to accord highest priority to the UNIDO least developed countries (LDCs) programme, including the use of funds from the Special Industrial Services programme, the Industrial Development Fund and other sources available to UNIDO in order to assist in the implementation of the Industrial Action Programme for the Least Developed Countries. In that resolution, the Director-General was also requested to take appropriate measures to implement the conclusions and recommendations of the Second Ministerial Symposium on the Industrialization of the Least Developed Countries (Yaoundé, 3-10 December 1993) and to present a report on the implementation of resolution GC.5/Res.16 to the Conference at its sixth session through the Board. Two reports on the subject were submitted by the Director-General to the Board, at its twelfth session—when the Board adopted decision IDB.12/Dec.6—and at its thirteenth session (IDB.12/6 and GC.6/5-IDB.13/12, chap. VIII). The present report updates the latter document for 1994 and provides information on activities carried out in 1995. Other documents providing information on UNIDO activities in the LDCs include the reports on the Special Programme for the Industrial Development of Asia and the Pacific (GC.6/13/Rev.1, chap. II), on UNIDO support to the Second Industrial Development Decade for Africa (GC.6/11-IDB.14/21) and on the external debt and industrial development (GC.6/6/Add.1).

2. In 1994 and 1995, UNIDO assistance to LDCs has continued to focus on follow-up activities related to the implementation of the Paris Declaration and the Programme of Action for the LDCs for the 1990s as well as the Industrial Action Programme for LDCs (PI/114), taking into consideration the recommendations of the Second Ministerial Symposium. During this period, UNIDO activities on behalf of LDCs have included more than 100 approved or implemented projects, covering all Industrial Action Programme priority areas.

3. Activities benefiting LDCs are developed through a high degree of interdivisional collaboration within the framework of special programmes, policy documents and reports as inputs to meetings. In 1994 and 1995, the LDC Unit undertook a series of workshops, seminars and expert group meetings. Development of "seed" programmes continues to be an important initiative of the Unit.

4. Activities were promoted and developed in close cooperation with various organizations within the United Nations system and other institutions. Thus in the area of private sector development programme activities in 1994 and 1995 were defined and developed in co-operation with the World Bank. Within the framework of this cooperation, the World Bank Vice President for Finance and Private Sector Development participated in the UNIDO expert group meeting held at Kathmandu, Nepal (see para. 20 below). Special appreciation was expressed by the United Nations Conference on Trade and Development secretariat for the participation and contribution of UNIDO to the preparation of the high-level intergovernmental meeting on the mid-term review of the implementation of the Programme of Action for the LDCs for the 1990s held in Geneva in June 1995 and for the UNIDO contribution to the mid-term global review of progress towards the implementation of the Programme of Action for the 1990s, to be held in New York from 26 September to 6 October 1995. During the current biennium together with the Office for the Special Coordinator for Africa and the LDCs in the United Nations Department for Policy Coordination and Sustainable Development new directions for cooperation were formulated for informal sector development in African LDCs and Africa as a whole. Other examples of cooperation developed during the same period included: a seminar organized jointly with the Economic and Social Commission for Asia and the Pacific, on food safety for Asian and African LDCs; active participation in the Economic Commission for Africa conference on implications of the Uruguay Round Agreements in Africa, with special reference to LDCs; cooperation with the Asian Institute of Technology in organizing a training programme for Asian LDCs in quality management in the food industry; and cooperation with the International Trade Centre UNCTAD/GATT as an important feature of the grassroots project promoting the traditional textile industry of West African LDCs. This approach is only a starting point for future programme development towards the industrialization of LDCs.

I. PRIORITY AREAS

5. While priorities necessarily vary among the LDCs according to their unique endowments and needs, activities covered during 1994 and 1995 as a whole concern the following areas:

Creation of an enabling environment and mobilization of financial resources for industrial development

6. A total of 12 projects addressed specifically to this priority area benefited the following countries: Benin, Guinea, Madagascar, Mozambique, Nepal, Sierra Leone, Sao Tome and Principe, United Republic of Tanzania, Yemen and Zambia. As a whole, activities cover the process of strengthening operational capabilities of

ministries of industry, formulation of national investment policies and identification of international investment opportunities. The regional meeting of Ministers of Industry in the Asia and Pacific region to be held at New Delhi in October 1995 (see GC.6/13/Rev.1, para. 19) is one of two regional projects. The meeting will review salient challenges related to the intensifying competition in world and regional markets and will focus on five key subjects, including special problems of LDCs in the region.

Private sector development

7. Activities to support LDCs in private sector development have been carried out in 1994 and 1995 in the areas of small- and medium-scale industries, privatization and industrial rehabilitation. In promoting the development of small and medium enterprises (SMEs) in LDCs, account is taken of the great potential offered by these enterprises in building up a broader and more resilient base for industrialization and their overall contribution to long-term social and economic progress. In line with the emphasis placed by LDCs on SMEs, UNIDO has strengthened and expanded its activities in that area. UNIDO promotes the adoption and implementation of policies and strategies to ensure that requisite financial and technical resources are mobilized for SMEs, and encourages and assists efforts to modernize small enterprises and improve their quantitative and qualitative output. In the specific area of SMEs, 23 projects have been approved, are under implementation or have been implemented in 1994 and 1995, benefiting the following countries: Benin, Burkina Faso, Central African Republic, Equatorial Guinea, Ethiopia, Guinea, Kiribati, Lao People's Democratic Republic, Lesotho, Madagascar, Mozambique, Niger, Solomon Islands, Togo, Uganda, United Republic of Tanzania, Yemen, Zaire and Zambia.

8. The UNIDO privatization programme aims to assist Governments in the planning of comprehensive sustainable strategies and to further the process of divestment of public assets in industrial enterprises with a view to creating favourable conditions for the development of entrepreneurship and private initiatives. Activities have been directly linked to the development of SMEs, with 14 projects approved, implemented or under implementation in the following countries: Benin, Bhutan, Burkina Faso, Burundi, Cape Verde, Central African Republic, Chad, Equatorial Guinea, Guinea-Bissau, Kiribati, Madagascar, Mali, Mauritania, Mozambique, Sierra Leone, Sudan, Togo, Uganda, Yemen and Zambia.

9. In the context of support to the process of sustainable industrial growth, industrial rehabilitation assistance has been provided at the enterprise level. Diagnostic activities have related to technical, economic, management, organizational, institutional and policy aspects, leading to comprehensive rehabilitation projects and examination of plant feasibility. Accordingly, UNIDO has approved, has implemented or is implementing 15 projects in Bhutan, Cambodia, Ethiopia, Guinea, Haiti, Lao People's Democratic Republic, Madagascar, Nepal, Sao Tome and Principe, Sierra Leone, United Republic of Tanzania and Zambia.

Industrial development in rural areas

10. A majority of the population in LDCs, particularly the poor, live in rural areas, where agriculture— as the dominant productive sector—continues to rank high among development priorities and where the development of agro-related industries will be of crucial importance. In 1994 and 1995, considerable UNIDO effort went to establishing a coherent and effective policy framework for rural industrialization and for balanced development between urban and rural economies. Typical of that approach is a project for rural small-scale industry promotion in Uganda. In Bangladesh, a UNIDO study reviewed options for policy, institutional and other forms of intervention in order to promote industrialization and employment generation in rural areas. Other programmes/projects have been implemented in Sao Tome and Principe, United Republic of Tanzania and Zambia. The emphasis placed on industrial development in rural areas of LDCs in Asia and the Pacific is described in document GC.6/13, chapter II.

Human resource development

11. UNIDO assistance to LDCs in human resource development continues to upgrade skills of nationals at all levels involved in the industrial development process. A total of 26 projects have been approved in 1994 and 1995. Efforts covered Benin, Bhutan, Botswana, Burundi, Cape Verde, Ethiopia, Madagascar, Mozambique, Myanmar, Niger, Sierra Leone, Togo, Uganda, United Republic of Tanzania and Zambia. Activities under this heading included updating and improving skills required in business organization and management so as to enhance productivity and the organizational effectiveness of industrial enterprises.

Environment and energy

12. Aware of the potential hazards to LDCs, UNIDO is following the orientation adopted by the Conference on Ecologically Sustainable Industrial Development in introducing environmental protection and resource conservation policies and programmes. Also as a priority, efforts must be made to increase the efficiency of energy use and conservation. The high priority accorded LDCs in the UNIDO environment protection and energy development programme is reflected by the approval and

implementation of 22 projects for those countries in 1994 and 1995. Projects covered a wide range of activities, including wastewater and animal waste treatment (Guinea); building institutional capabilities within the Ministry of Industry for industry-related environment policy formulation and implementation (Nepal); research and development in new and renewable sources of energy (Madagascar). Other projects benefited Cape Verde, Ethiopia, Maldives, Mozambique, Rwanda, Sudan, Uganda, United Republic of Tanzania and Yemen.

Development and transfer of technology

13. The UNIDO technology development and transfer programme for LDCs was designed to upgrade and diversify the industrial base through a build-up of technological infrastructure and of the capability for acquisition of foreign technology and technological information. In 1994 and 1995, various activities undertaken within the IDDA technology for development programme covering several LDCs focused on technology policies, strategies, management, negotiation and acquisition. A project in Ethiopia strengthened capabilities for the manufacture of spare parts and hand tools. A new technology was introduced to the milling industry of the United Republic of Tanzania. Other LDCs benefiting from projects under the development and transfer of technology programme included Guinea, Madagascar, Malawi, Maldives, Mozambique, Nepal, Niger, Sierra Leone, Sudan and Zambia.

14. Detailed information on assistance provided to a number of LDCs in the establishment of national industrial statistics programmes is contained in document GC.6/5 (para. 221). Currently, one project is under implementation in Zambia, and a project document has been prepared for the United Republic of Tanzania. Missions will be undertaken to Benin, Eritrea and other countries to promote the programme.

Transport and communication

15. The severe difficulties and handicaps faced by many LDCs, often as a result of their land-locked status and geographical isolation, create an urgent need for improving and developing both national and regional transport and communication systems for industrial development. Two projects concern the United Republic of Tanzania and Zambia, where assistance has been given for improvement, maintenance and management of transport equipment.

II. FUTURE OUTLOOK

16. Among considerations in orienting the future UNIDO programme for LDCs will be the requirement to assist those countries in overcoming possible short-term negative impacts resulting from the Uruguay Round of Agreements concluded in 1994. Support in this field will primarily include policy advice and industrial restructuring. Enhancement of product quality will be another specific issue to be addressed.

17. The programme will continue to aim at production for local consumption, based on the use of local natural resources, with special focus on agro-based industries. The final objective by 2000 is to maximize the use of local natural resources based on the training of human resources.

18. Other industrial programmes may include: assistance in the establishment of industrial estates; promotion of private sector development through micro, small- and medium-scale industries (establishment, privatization and rehabilitation); environmental protection in Sahelian and island LDCs; and micro-enterprise development.

19. Attention will also be given to the development of supporting industries and services, the lack of which is viewed as a major obstacle to LDC industrial development. Specific programmes will address sub-sectoral and institutional constraints. Preparation of technical cooperation programmes will also be carried out for groups of LDCs.

20. In preparation for the Third Ministerial Symposium to be held in Vienna from 30 November to 8 December 1995 on sustainable private sector development and accelerated growth of industrial enterprises in LDCs, a preparatory expert group meeting was held at Kathmandu, Nepal, from 4 to 8 April 1995. The meeting produced, for consideration by the Symposium and possible submission to the General Conference, a draft programme of action for sustainable private sector development in, and accelerated industrial growth of, LDCs.

21. A major hindrance to industrial growth in the LDCs is the debt burden, including bilateral concessional debt. Growth of LDCs will to a large extent depend on debt relief programmes, non-concessional capital inflows from private and public sources, and reserve requirements, all of which are subject to great uncertainties. UNIDO activities for LDCs will take account of the need for harmonization between debt relief mechanisms and ODA programmes. Additional information concerning implications of the external debt burden for LDCs is provided in document GC.6/6/Add.1, paragraphs 6 to 9.

22. A number of LDCs are covered in the series of UNIDO Industrial Development Reviews. These represent a wide dissemination of information and analysis

pertaining to renewed national capacities, redefined programmes and priorities, and emerging opportunities across manufacturing subsectors. Thus, subsector-specific information and analyses contained in the 1994 Review of Lao People's Democratic Republic support technical cooperation programming for industry and are also intended to attract potential investors to emerging industrial investment and trade opportunities. Reviews of Eritrea, Ethiopia and Uganda are under preparation as substantive inputs to the UNIDO Investors' Forum scheduled to be held at Kampala, Uganda in November 1995. Within the framework of the Industrial Development Decade for Africa (IDDA) programme, Reviews of Angola, Mozambique and the United Republic of Tanzania are to be initiated in 1996. A strategic review of the industrial sector of the Lesotho economy emphasized in particular the textile and clothing subsectors in the light of developments in South Africa.

23. UNIDO will maintain its country-level efforts in analysing prospects and constraints relating to industrial development and in mobilizing financial resources for industrial development. Since the problems of one sector cannot be solved in isolation, the linkages between actions at the sectoral, national, subregional and international levels should be taken into account. Although the manufacturing sector is still small in LDCs, it is the focus of development aspirations and the primary potential for dynamic growth.

24. A review of UNIDO's approach to the LDCs will be undertaken early in the 1996-1997 biennium, with a view to its re-orientation. Plans call for putting in place a more integrated programme approach to the LDCs while ensuring synergies with programmes of other organizations in the United Nations system.

III. ACTION REQUIRED OF THE CONFERENCE

25. The Conference may wish to take note of the information contained in the present document.